

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its March 2005 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 4.4% in 2004, 3.7% in 2005, 3.1% in 2006, 3.1% in 2007, and 3.0% in 2008;
- U.S. nonfarm employment grows 1.1% in 2004, 1.7% in 2005, 1.4% in 2006, 0.9% 2007, and 0.7% in 2008;
- the U.S. civilian unemployment rate falls from 5.5% this year to 5.2% next year and hovers near that level in the remaining years of the forecast;
- consumer inflation is 2.7% in 2004, 2.2% in 2005, 1.7% in 2006, 1.9% in 2007, and 2.1% in 2008; and
- the federal unified budget deficit peaks at \$412 billion in 2004 then gradually declines to \$293 billion in 2008.

OPTIMISTIC SCENARIO

The *Optimistic Scenario* has been assigned a 20% probability of occurrence. Six assumptions distinguish the *Optimistic Scenario* from the *Baseline Scenario*. First, total factor productivity is stronger. It is the economic equivalent of a miracle pill. It makes economic headaches such as inflation, budget deficits, and sluggish growth disappear. Second, foreign economic growth is stronger, which boosts U.S. exports and strengthens domestic manufacturing. Third, business investment is higher. Fourth, the federal government budget deficit is lower thanks to higher tax revenues and lower federal transfer payments. Fifth, housing starts are stronger in this alternative forecast. Sixth, oil prices are assumed to be about \$5/barrel lower than in the *Baseline Scenario*.

These assumptions produce a rosier outlook than in the baseline. The economy grows 0.7 basis point faster than in the baseline in 2005 and 0.8 point faster in 2008. Specifically, real GDP advances a healthy 4.1% in 2005, 4.0% in 2006, 3.5% in 2007, and 3.1% in 2008. In the *Baseline Scenario*, real GDP is projected to rise 3.7% this year and about 3% in each of the remaining years of the forecast horizon. Job growth is also stronger. Nonfarm employment is 570,00 higher than in the baseline at the end of this year and nearly 1.3 million higher at the end of next year. The unemployment rate falls below its baseline counterpart during the forecast period. Despite the stronger growth, inflation remains in check thanks to the healthy productivity gains. The lower inflation rate helps keep the federal funds rate below the baseline value.

The Idaho economic outlook improves slightly under the assumptions of the *Optimistic Scenario*. For example, there are just 45 more jobs than in the baseline in 2004. This gap widens over time, so that there are about 450 more jobs in 2008. All of the improvement is in the nongoods-producing sector. In fact, the goods-producing sector actually grows slower in the *Optimistic Scenario*. As a result, there are fewer goods-producing jobs in Idaho even though the U.S. economy grows faster than in the baseline case. Idaho personal income displays a similar pattern. Nominal Idaho personal income expands noticeably slower than its baseline counterpart, causing it to be \$560 billion lower than in the baseline. Adjusting for inflation narrows the income differences between the *Optimistic* and *Baseline* forecasts, so by 2008 the gap is just \$34 million.

IDAHO ECONOMIC FORECAST
BASELINE AND ALTERNATIVE FORECASTS
APRIL 2005

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2005	2006	2007	2008	2005	2006	2007	2008	2005	2006	2007	2008
GDP (BILLIONS)												
Current \$	12,430	13,052	13,733	14,450	12,465	13,169	13,887	14,604	12,421	12,988	13,645	14,459
% Ch	5.9%	5.0%	5.2%	5.2%	6.2%	5.7%	5.4%	5.2%	5.9%	4.6%	5.1%	6.0%
2000 Chain-Weighted	11,247	11,591	11,946	12,302	11,282	11,730	12,146	12,525	11,227	11,449	11,701	12,020
% Ch	3.7%	3.1%	3.1%	3.0%	4.1%	4.0%	3.5%	3.1%	3.6%	2.0%	2.2%	2.7%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	39,169	41,326	43,610	46,124	39,070	41,027	43,188	45,564	39,244	41,760	44,577	47,824
% Ch	5.3%	5.5%	5.5%	5.8%	5.0%	5.0%	5.3%	5.5%	5.5%	6.4%	6.7%	7.3%
U.S. (Billions)	10,224	10,792	11,376	12,021	10,237	10,848	11,460	12,103	10,226	10,794	11,407	12,144
% Ch	5.7%	5.6%	5.4%	5.7%	5.8%	6.0%	5.6%	5.6%	5.7%	5.6%	5.7%	6.5%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	35,659	36,987	38,255	39,578	35,643	36,953	38,238	39,544	35,578	36,798	38,154	39,701
% Ch	3.4%	3.7%	3.4%	3.5%	3.3%	3.7%	3.5%	3.4%	3.1%	3.4%	3.7%	4.1%
U.S. (Billions)	9,308	9,658	9,979	10,315	9,338	9,771	10,146	10,504	9,271	9,511	9,764	10,081
% Ch	3.8%	3.8%	3.3%	3.4%	4.1%	4.6%	3.8%	3.5%	3.4%	2.6%	2.7%	3.3%
TOTAL NONFARM EMPLOYMENT												
Idaho	597,852	608,257	619,598	630,439	597,897	609,087	620,385	630,886	597,498	605,799	616,019	627,832
% Ch	1.9%	1.7%	1.9%	1.7%	1.9%	1.9%	1.9%	1.7%	1.8%	1.4%	1.7%	1.9%
U.S. (Thousands)	133,736	135,629	136,875	137,821	133,958	136,668	138,379	139,320	133,656	134,872	135,344	136,304
% Ch	1.7%	1.4%	0.9%	0.7%	1.9%	2.0%	1.3%	0.7%	1.7%	0.9%	0.4%	0.7%
GOODS-PRODUCING SECTOR												
Idaho	105,930	104,273	103,513	102,872	106,043	105,111	103,873	102,414	105,910	103,250	102,014	102,142
% Ch	0.8%	-1.6%	-0.7%	-0.6%	0.9%	-0.9%	-1.2%	-1.4%	0.8%	-2.5%	-1.2%	0.1%
U.S. (Thousands)	22,157	22,330	22,381	22,351	22,216	22,651	22,908	22,842	22,150	22,196	21,967	21,761
% Ch	1.3%	0.8%	0.2%	-0.1%	1.5%	2.0%	1.1%	-0.3%	1.2%	0.2%	-1.0%	-0.9%
NONGOODS-PRODUCING SECTOR												
Idaho	491,922	503,984	516,085	527,567	491,854	503,976	516,512	528,472	491,589	502,549	514,005	525,690
% Ch	2.1%	2.5%	2.4%	2.2%	2.1%	2.5%	2.5%	2.3%	2.0%	2.2%	2.3%	2.3%
U.S. (Thousands)	111,579	113,299	114,493	115,470	111,743	114,017	115,471	116,479	111,506	112,676	113,378	114,543
% Ch	1.8%	1.5%	1.1%	0.9%	2.0%	2.0%	1.3%	0.9%	1.7%	1.0%	0.6%	1.0%
SELECTED INTEREST RATES												
Federal Funds	3.2%	4.0%	4.3%	4.5%	2.9%	3.5%	3.7%	4.0%	3.4%	5.4%	6.9%	6.8%
Bank Prime	6.2%	7.0%	7.3%	7.5%	5.9%	6.5%	6.7%	7.0%	6.4%	8.4%	9.9%	9.8%
Existing Home Mortgage	6.2%	6.5%	6.7%	7.1%	6.1%	6.1%	6.2%	6.7%	6.7%	8.3%	8.2%	8.0%
INFLATION												
GDP Price Deflator	2.1%	1.9%	2.1%	2.2%	2.0%	1.6%	1.8%	2.0%	2.2%	2.5%	2.8%	3.1%
Personal Cons Deflator	1.9%	1.7%	2.0%	2.2%	2.0%	1.6%	1.8%	2.0%	2.3%	2.9%	3.0%	3.1%
Consumer Price Index	2.2%	1.7%	1.9%	2.1%	2.0%	1.2%	1.7%	1.9%	2.6%	2.7%	2.7%	2.9%

Forecast Begins the FOURTH Quarter of 2004

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has also been assigned 20% probability of occurrence. A significant feature of the *Pessimistic Scenario* is the re-emergence of inflation. The pickup of inflation reflects higher oil prices, a weaker dollar, two-and-one half years of accommodative monetary policy, and loose fiscal policy. This *Scenario* assumes there is less spare capacity in both the global and U.S. economies than had been previously believed. This is because rapid technological advances and higher oil prices may have rendered current idle capacity obsolete. It is also assumed the U.S. dollar will rapidly weaken as the swelling U.S. trade deficit scares off foreign investors. The flight from greenback-valued investments puts upward pressure on domestic interest rates. In addition, the falling dollar fuels inflation fires. By the end of this year core inflation (overall inflation less food and energy) is over 3%.

The Federal Reserve responds to the higher inflation by accelerating its tightening. By the end of 2005, its federal funds rate is 4.5%, which are 50 basis points higher than its baseline counterpart. Despite the aggressive tightening, the stock and bond markets both slip on signs the central bank may have let inflation build up too much momentum. The Federal Reserve continues battling inflation by tightening further. By the end of 2007, the federal funds rate is at 7.25% and the U.S. unemployment rate is 5.9%. Despite the rising interest rates, the economy does not sink into a recession. Instead, it fails to grow at its full potential.

The weaker U.S. economy has a mixed impact on the Idaho economy. First, Idaho employment is clearly hurt. Both the goods- and nongoods-producing sectors turn in sub-par growth. As a result, Idaho nonfarm employment is about 2,600 below its baseline counterpart in 2008. On the other hand, the higher inflation actually helps Idaho personal income. For example, Idaho nominal personal income grows faster in each year of the forecast and is \$1.7 billion higher in 2008. However, most of this gain disappears when Idaho personal income is adjusted for inflation. Specifically, in the forecast's terminal year nominal Idaho nominal personal income is just \$123 million above the baseline amount.